

— March 13, 2002 —



Supply Inventory Management

Management of Terminal Items at
the Defense Logistics Agency
(D-2002-060)

— Department of Defense —
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Acronyms

| | |
|-------|---|
| AAC | Acquisition Advice Code |
| DIIP | Defense Inactive Item Program |
| DLA | Defense Logistics Agency |
| DLIS | Defense Logistics Information Service |
| FLIS | Federal Logistics Information System |
| NATO | North Atlantic Treaty Organization |
| NSN | National Stock Number |
| SAMMS | Standard Automated Materiel Management System |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

March 13, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on the Management of Terminal Items at the Defense Logistics Agency (Report No. D-2002-060)

We are providing this report for review and comment. This is the first in a series of reports about the management of terminal items. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations and unresolved issues be resolved promptly. Defense Logistics Agency comments were partially responsive and we request additional comments on the recommendations. Management comments should be provided by May 13, 2002.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Tilghman A. Schraden at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Terrance P. Wing at (215) 737-3883 (DSN 444-3883) (twing@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma
David K. Steensma
Acting Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2002-060

Project No. (D2001LD-0128)

March 13, 2002

Management of Terminal Items at the Defense Logistics Agency

Executive Summary

Introduction. Defense Logistics Agency (DLA) supply centers manage more than 4.1 million national stock number (NSN) items. NSN items that are terminal are those stocked and non-stocked items managed by the DLA that are not authorized for future procurement. An NSN is generally classified as terminal when either there is no known source of supply for the NSN or the NSN is replaced by another NSN. As of May 2001, DLA supply files included 138,822 terminal NSNs, excluding the clothing and textile, medical, and subsistence commodities, that had no registered users. Data records indicated that the "date of last demand" field for those 138,822 NSNs either had no demand for 5 years or was blank.

Objectives. The overall audit objective was to evaluate the DLA management of terminal NSN items. This report, the first in a series, addresses DLA management of 43,603 of the 138,822 terminal NSNs. We excluded the remaining 95,219 terminal NSNs from this audit because they had been identified for review, for reasons other than being terminal, in prior audits of DLA management of obsolete NSNs (listed in Appendix A). We also reviewed the management control program as it applied to the audit objective. The next report will address DLA-managed terminal NSNs with the Navy as the only registered user.

Results. Item managers at DLA did not review terminal NSNs to determine whether the NSNs were obsolete. A statistical sample of 110 NSNs indicated that 31,623 of 43,603 terminal NSNs were obsolete and actions had not been taken to delete the NSNs from the DLA supply system. The sample also indicated that the remaining 11,980 NSNs were obsolete to Military Department requirements, but DLA had not determined whether there were North Atlantic Treaty Organization or foreign government requirements for the NSNs. As a result, DLA was incurring unnecessary supply management costs. For details on the audit results, see the Finding section of this report. See Appendix A for a discussion of our review of the management control program.

Summary of Recommendations. We recommend that the Director, DLA, revise procedures to review terminal items with no registered users for obsolescence and quantify the number of terminal NSNs that are determined to be obsolete after North Atlantic Treaty Organization and foreign government review of the NSNs.

Management Comments. DLA nonconcurred with the finding. DLA stated that terminal items have either undergone an item reduction study or are non-procurable and terminal items resulting from item reduction studies have an automated program that cancels the items. In addition, terminal items incur minimal costs and studies are underway to determine the cost of maintaining inactive NSNs in the supply system and the viability of the Defense Inactive Item Program (DIIP). DLA concurred with the recommendation to review terminal items for obsolescence and agreed to include terminal NSNs in the DIIP provided there is a cost benefit associated with canceling the NSNs. DLA nonconcurred with the recommendation to quantify the number of terminal NSNs that are determined to be obsolete after North Atlantic Treaty Organization and foreign government review of the NSNs. DLA stated that those items should be sent to the Defense Logistics Information Service to determine whether there are North Atlantic Treaty Organization or foreign government requirements for the NSNs. See the Finding section for additional discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Audit Response. The DLA comments are partially responsive. Although DLA concurred with the recommendation to review terminal items for obsolescence, its comments contradict DoD policy. DoD policy requires DoD managers to purge unneeded items from the inventory and catalog files. The DIIP is an interactive DoD program that impacts the Military Departments as well as DLA. Consequently, DLA should not be unilaterally evaluating the cost effectiveness of the DIIP. If DLA questions the viability of the DIIP, it needs to coordinate any study involving the cost benefits of the DIIP with the Military Departments and elevate the issue within DoD for decisions or recommended changes to existing policy. In addition, DLA provided no valid data to support its statement that the terminal items incur minimal cost. To the contrary, DLA reported cost avoidance savings of approximately \$89 million for the 10-year period ending FY 2001 under its item reduction program for deleting unneeded items from the supply system. Additionally, the item reduction program was not effective in automatically canceling obsolete terminal NSNs because none of the 110 NSNs in our audit sample had been canceled. DLA comments also did not address quantifying terminal NSNs that the North Atlantic Treaty Organization and foreign governments find to be obsolete. We request that DLA reconsider its position and provide additional comments on the final report by May 13, 2002.

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Background

Materiel Management. Defense Logistics Agency (DLA) supply centers are assigned the primary responsibility for materiel management for a group of items used by either a particular Service or by DoD as a whole. Materiel management responsibilities include cataloging,¹ requirements computation, procurement direction, distribution management, and disposal direction. DLA supply centers manage more than 4.1 million national stock number (NSN) items.

DoD Guidance. DoD Manual 4100.39-M, "Federal Logistics Information System (FLIS) Procedures Manual," April 1999, provides procedures for DoD organizations to interface with the FLIS. The FLIS is a management system designed to collect, store, process, and provide NSN logistics information. Included in the FLIS is information concerning registered users of NSNs. The FLIS is managed by the DLA Defense Logistics Information Service (DLIS), Battle Creek, Michigan. DoD Manual 4100.39-M defines terminal NSNs as stocked and non-stocked items that are not authorized for future procurement.

DoD Manual 4140.32-M, "Defense Inactive Item Program (DIIP)," August 1992, provides procedures for the systematic elimination of inactive, or obsolete, NSNs from the DLA supply system and states that items no longer needed to support the mission of DoD organizations, other Federal agencies, or the International Logistics Program needlessly consume cataloging and supply system files, machine time, personnel resources, and warehouse space with serious effect on the total supply system. DoD managers at every level are expected to place serious and continuous emphasis on the purging of unneeded items from the materiel inventory and active catalog files.

DLA Procedures. DLA Manual 4140.2, "Supply Operations Manual," July 1, 1999, provides policy, uniform guidance, and procedures for DLA supply centers to systematically review and eliminate inactive, or obsolete, items of supply from the DLA supply system. An item is considered inactive if there are no current or future requirements anticipated by any registered user or by the integrated materiel manager of the NSN. The manual requires that the commander of each supply center designate a DIIP monitor to act as the focal point for all matters concerning the DIIP. DIIP monitor responsibilities

¹ The act of naming, classifying, describing, and numbering each item repetitively used, purchased, stocked, or distributed so as to distinguish each item from every other item. Also included is the maintenance of information related to the item and the dissemination of that information to item users.

include initiating timely actions to delete an obsolete item from the DLA supply system after user interest has been withdrawn and assessing the overall progress and effectiveness of the DIIP.

Terminal NSNs. NSN items that are terminal are those stocked and non-stocked items managed by the DLA that are not authorized for future procurement. An NSN is generally classified as terminal when either there is no known source of supply for the NSN or the NSN is replaced by another NSN. DLA uses acquisition advice codes (AACs) to indicate how and under what restrictions NSNs will be acquired. NSNs assigned an AAC of V or Y are coded as terminal. AAC-V identifies terminal NSNs with DLA inventory. AAC-Y identifies terminal NSNs with no DLA inventory. As of May 2001, DLA supply files included 138,822 terminal NSNs, excluding the clothing and textile, medical, and subsistence commodities, that had no registered users. Data records indicated that the "date of last demand" field for those 138,822 NSNs either had no demand for 5 years or was blank.

Objectives

The overall audit objective was to evaluate the DLA management of terminal NSN items. This report, the first in a series, addresses DLA management of 43,603 of the 138,822 terminal NSNs. We excluded the remaining 95,219 terminal NSNs from this audit because they had been identified for review, for reasons other than being terminal, in prior audits of DLA management of obsolete NSNs (listed in Appendix A). We also reviewed the management control program as it applied to the audit objective. The next report will address DLA-managed terminal NSNs with the Navy as the only registered user. See Appendix A for a discussion of the audit scope and methodology, our review of the management control program, and prior audit coverage.

Terminal Items

Item managers at DLA did not review terminal NSNs to determine whether the NSNs were obsolete. A statistical sample of 110 terminal NSNs indicated that 31,623 of 43,603 terminal NSNs were obsolete and actions had not been taken to delete the NSNs from the DLA supply system. The sample also indicated that the remaining 11,980 NSNs were obsolete to Military Department requirements, but DLA item managers had not initiated actions to contact the North Atlantic Treaty Organization (NATO) or foreign governments to determine their requirements for the NSNs. The terminal NSNs were not reviewed for obsolescence because DLA guidance excluded terminal NSNs from the DIIP and there was no management control to systematically identify terminal NSNs for item manager review. As a result, DLA was incurring unnecessary supply management costs.

DIIP Process

Selection of NSNs. Each year, the DLA Standard Automated Materiel Management System (SAMMS) screens all NSNs in the DLA supply centers' supply files to determine the NSNs that are eligible for the DIIP. Two criteria for determining eligible NSNs are that the NSN has been in the Federal supply system for 7 years and that the NSN has experienced no demand in the past 2 years. After eligible NSNs have been identified, SAMMS screens the NSNs against catalog and supply data to determine whether the NSNs qualify for the DIIP. NSNs that qualify for the DIIP are sent to the DLIS to query FLIS user data. NSNs with registered users, primarily the Military Departments, qualify for the DIIP and are referred to the Military Departments to review the NSNs and notify the supply centers to either delete or retain the NSNs. NSNs with no registered users do not qualify for the referral process.

No Registered Users. When all users have withdrawn their interest and their requirements for an NSN, DIIP procedures provide that the NSN be subject to the "last user withdrawn" process. In that process, SAMMS assigns DLA as a user of the NSN to preclude it from automatically being deleted from the supply system and assigns the NSN an inactive item review code² of X. Each month, SAMMS checks each NSN with an inactive item review code of X against supply data to determine whether the decision to retain or delete the NSN from

² A review code indicates the status of NSNs in the DIIP.

the supply system requires item manager review. If item manager review is required, the inactive item review code is changed to W and supply data is sent to the item manager to determine whether the NSN should be deleted from the supply system. If item manager review is not required, SAMMS should automatically delete DLA as a user of the NSN and initiate actions to delete the NSN.

When a decision is made to delete an NSN from the DLA supply system, SAMMS submits a transaction to update the FLIS files. Prior to updating the FLIS, DLIS procedures provide that a determination be made as to whether there is NATO or foreign government interest in the NSN. If there is interest, the NSN is not deleted from the DLA supply system.

Review of Terminal NSNs

Item managers at DLA did not review terminal NSNs to determine whether the NSNs were obsolete. We reviewed a statistical sample of 110 of 43,603 terminal NSNs. We discussed each sample NSN with responsible DLA personnel to determine whether the NSNs were reviewed for obsolescence and, if not reviewed, whether actions should be initiated to delete the NSNs from the supply system.

For the NSNs reviewed, supply center personnel advised us that the NSNs had not been reviewed for obsolescence and that actions should be taken to delete the NSNs from the supply system. In our analysis of the 110 NSNs, we noted that DLA supply records showed that 11 of the NSNs were coded as weapon system related. To determine whether the 11 NSNs supported active weapon systems, we contacted either the weapon system monitor at DLA headquarters or the Military Department that managed the weapon system the NSN was related to. None of the 11 NSNs were needed to support weapon systems.

During the course of evaluating the 11 NSNs, we were informed by Air Force officials that DLA was deleting other NSNs from the supply system that were needed to support active weapon systems. In a future audit, we will evaluate DLA management controls used to ensure that NSNs that support active weapon systems are not deleted from the supply system.

Of the 110 terminal NSNs in our sample, 81 were obsolete. We projected the 81 terminal NSNs across the universe of 43,603 terminal NSNs and estimated that 31,623 terminal NSNs should have had actions taken to delete them from the supply system. The remaining 29 NSNs in our sample were also obsolete to

Military Department requirements, but codes in the DLIS indicated that NATO and foreign governments had requirements for those terminal NSNs. Although there had been no demands for those 29 NSNs in at least 5 years, item managers had not initiated actions to review the NSNs for obsolescence or contact NATO and foreign governments to determine whether the requirements were still valid. We projected the 29 terminal NSNs across the universe of 43,603 terminal NSNs and estimated that 11,980 terminal NSNs should have had actions taken to determine whether they had NATO or foreign government requirements. Appendix A provides a detailed discussion of the sampling methodology and projected audit results.

Management Controls

DLA did not review terminal NSNs for obsolescence primarily because DLA guidance excluded terminal NSNs from the DIIP and there was no management control to systematically identify for item managers terminal NSNs that should be reviewed for obsolescence. NSNs do not qualify for the DIIP for various reasons, including when an NSN is coded as terminal. DLA Manual 4140.2 states that terminal NSNs do not qualify for either the DIIP annual review referral process to determine whether NSNs are obsolete or the DIIP last user withdrawn process. Because terminal NSNs were not included in DLA guidance on the DIIP, no controls were put in place to assist item managers in identifying terminal NSNs that should be reviewed for obsolescence.

DLA item managers stated that reviewing terminal NSNs was not a high priority and they concentrated on managing NSNs that had current or future requirements. Item managers also stated that SAMMS did not systematically provide recurring reports to identify terminal NSNs and the length of time the NSNs had been in a terminal status. Because there were no records available to show how long the 110 sample NSNs had been in a terminal status, we evaluated the supply records for the date of last demand. For 50 NSNs, the supply records did not show a date of last demand. For the remaining 60 NSNs, supply records showed that the date of last demand was before 1994 for 54 NSNs and either in 1994 or later for 6 NSNs.

Cost of Maintaining Obsolete NSNs

In September 1999, the DLA Office of Operations Research and Resource Analysis published a study to provide cost data in support of item reduction

studies. The study included cost avoidance data for eliminating an existing NSN from the DLA supply system. The following table shows the results of the study.

Cost of Maintaining NSNs

| <u>Category</u> | <u>Cost</u> |
|--|-------------|
| Average annual cost to maintain a stocked NSN | \$ 400 |
| Average annual cost to maintain a non-stocked NSN | 200 |
| Average cost to delete a stocked or non-stocked NSN | 57 |
| Remaining life-cycle cost avoided by eliminating a stocked NSN | 1,495 |
| Remaining life-cycle cost avoided by eliminating a non-stocked NSN | 747 |

In prior audits, we used the cost study to calculate the potential for putting funds to better use by deleting NSNs from the DLA supply system. In May 2001, DLA concurred with our use of the cost study, stating that "the best data available to determine the cost of deleting NSNs from the system is the DLA Operations Research and Resource Analysis study and we do not dispute the estimates of cost avoidance by the team." In August 2001, DLA amended its comments related to our use of the cost study and stated that the study should not be used as a basis to determine cost avoidance associated with retaining inactive NSNs. We disagreed with DLA and were working to resolve our differences on the cost factors for calculating the potential funds that could be put to better use. DLA is conducting a study to determine the cost of maintaining an inactive item in the supply system that is planned to be completed in May 2002. After the study is completed, we will evaluate the results to determine whether it provides a valid basis to compute and report the cost avoidance applicable to this report.

Management Comments on the Finding and Audit Response

Management Comments. DLA nonconcurred with the finding. DLA stated that terminal items have either undergone an item reduction study or are non-procurable and terminal items resulting from item reduction studies have an automated program that cancels the items. In addition, terminal items incur minimal costs and studies are underway to determine the cost of maintaining inactive NSNs and the viability of the DIIP Program. DLA also nonconcurred with the materiel management control weakness discussed in Appendix A and addressed by Recommendation 1. DLA stated that preliminary cost data

indicates that the costs of maintaining an item are lower than the cost to cancel an item. For the full text of DLA comments, see the Management Comments section of the report.

Audit Response. DoD policy states that DoD managers at every level are expected to place serious and continuous emphasis on the purging of unneeded items from the materiel inventory. In addition, DLA provided no valid data to support its statement that terminal items incur minimal cost. To the contrary, DLA reported cost avoidance of approximately \$89 million for the 10-year period ending FY 2001 under its item reduction program for removing unneeded items from the supply system. Cost avoidance for the items removed for FYs 1999 through FY 2001 were computed using the September 1999 DLA Office of Operations Research and Resource Analysis report. Additionally, the item reduction program for deleting unneeded NSNs was not effective in automatically canceling obsolete terminal NSNs because all 110 NSNs in our sample were obsolete to Military Department requirements and none of the NSNs were identified and automatically canceled.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Logistics Agency:

- 1. Revise Defense Logistics Agency Manual 4140.2, "Supply Operations Manual," July 1, 1999, to include terminal national stock number items with no registered users in the Defense Inactive Item Program last user withdrawn process.**

Management Comments. DLA concurred, agreeing to include terminal NSNs with no users in the DIIP if the cost study (expected to be completed in May 2002) verifies the benefit of canceling NSNs.

Audit Response. DLA comments are partially responsive. Although DLA concurred with the recommendation, it did not adhere to the DoD policy to remove unneeded NSNs from the supply system. In addition, the DIIP is an interactive DoD program that impacts the Military Departments as well as DLA. Consequently, DLA should not be unilaterally evaluating the cost-effectiveness of the DIIP. If DLA questions the viability of the DIIP, it needs to coordinate any study involving the cost benefits of the DIIP with the Military Departments

and elevate the issue within DoD for decisions on recommended changes to existing policy. We request that DLA reconsider its position and provide additional comments in response to the final report.

2. Maintain and report statistics on how many terminal national stock number items are deleted from the supply system after the North Atlantic Treaty Organization and foreign governments review the items.

Management Comments. DLA nonconcurred, stating that those items should be forwarded to DLIS to be coordinated with NATO and foreign government users.

Audit Response. The DLA comments are partially responsive. We agree that those items should be forwarded to DLIS for coordination with NATO and foreign government users, as recommended. That is the normal procedure DLA should use after it identifies NSNs that have no Military Department requirements. However, DLA did not address the intent of the recommendation, which was for DLA to maintain data to quantify potential cost avoidance for NSNs deleted from the supply system after NATO and foreign government review of the NSNs. We request that DLA reconsider its position and provide additional comments in response to the final report.

Appendix A. Audit Process

Scope and Methodology

We reviewed a statistical sample of 110 of 43,603 terminal NSNs to determine whether the NSNs were obsolete. The NSNs were taken from DLA supply records as of May 2001. For each NSN in our sample, we interviewed the responsible Defense Supply Center item manager to determine whether the NSN was obsolete. We interviewed item managers located at all three Defense Supply Centers: Columbus, Ohio; Philadelphia, Pennsylvania; and Richmond, Virginia. We interviewed DIIP monitors at each of the three supply centers to determine their role in reviewing terminal items. The documents we reviewed included DLA standard operating procedures, DoD and DLA guidance, catalog files, demand histories, and supply records and were dated from August 1992 through January 2002.

High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Inventory Management high-risk area.

Use of Computer-Processed Data. We relied on computer-processed data provided by DLA to identify terminal NSNs. We did not perform a formal reliability assessment of the computer-processed data. To the extent that we reviewed the data, we found some errors in supply codes, but those errors did not preclude the use of other computer data to meet the audit objective and those errors would not change the conclusions in this report.

Universe and Sample. DLA provided the audit team a database of terminal NSNs. The database was provided from May 2001 supply records of NSNs, excluding those in the clothing and textile, medical, and subsistence commodities, for which the "date of last demand" field in SAMMS either indicated no demand for more than 5 years or was blank. That database contained 138,822 NSNs. We excluded 95,219 of the 138,822 terminal NSNs from the universe because those NSNs were assigned inactive item review codes that were addressed in prior audits. The universe for this audit was the remaining 43,603 NSNs.

Statistical Sampling Methodology. The purpose of the statistical sampling plan was to estimate the number of terminal NSNs that were obsolete in the DLA supply system. DLA supply records identified 43,603 terminal NSNs, for which, as of May 2001, the date of last demand field either indicated no demands for the past 5 years or was blank. The sampling design was a stratified

attribute design. The universe was distributed across four locations. SAMMS identified one location as the Defense Electronics Supply Center, even though the center had been disestablished and management of NSNs managed by the center had been assumed by the Defense Supply Center Columbus. The following table shows the distribution of the NSNs from the universe and our sample at each of the four locations (Defense Electronics Supply Center [DESC], Defense Supply Center Columbus [DSCC], Defense Supply Center Philadelphia [DSCP], and Defense Supply Center Richmond [DSCR]).

Universe and Sample by Location

| <u>Location</u> | <u>Universe</u> | <u>Sample</u> |
|-----------------|-----------------|---------------|
| DESC | 17,709 | 40 |
| DSCC | 8,908 | 20 |
| DSCP | 5,065 | 20 |
| DSCR | <u>11,921</u> | <u>30</u> |
| Total | 43,603 | 110 |

Of the 110 NSNs reviewed, 81 were obsolete and 29 required review for current NATO or foreign government requirements. Based on the sample results, we projected with a 95-percent confidence level that between 27,963 and 35,283 NSNs of the 43,603 NSNs in the universe were obsolete and actions should be taken to delete the NSNs from the supply system. The midpoint of that range is 31,623 NSNs. Additionally, we projected with a 95-percent confidence level that between 2,548 and 8,034 of the obsolete NSNs in the universe had stock on hand. The midpoint of that range is 5,291. Likewise, we projected with a 95-percent confidence level that between 8,320 and 15,640 of the NSNs needed to be reviewed for NATO or foreign government requirements before the NSNs could be deleted. The midpoint of that range is 11,980.

Use of Technical Assistance. Personnel in the Quantitative Methods Division, Office of the Assistant Inspector General for Auditing, DoD, developed the statistical sampling plan and selected the sample for this audit.

Audit Type, Dates, and Standards. This economy and efficiency audit was performed from May 2001 through February 2002 in accordance with generally accepted government auditing standards.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DLA management controls over the review of terminal NSNs. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. As defined by DoD Instruction 5010.40, we identified material management control weaknesses in the review of terminal NSNs with no registered users to determine whether the NSNs should be deleted from the DLA supply system. Management controls were not effective to ensure that terminal NSNs with no registered users were reviewed for obsolescence. The recommendations in this report, if implemented, will correct the material weaknesses and could result in potential monetary benefits that have not been calculated because of differences with DLA in the cost factors that should be used in the calculation. A copy of the report will be provided to the senior official responsible for management controls in DLA.

Adequacy of Management's Self-Evaluation. DLA did not identify reviewing terminal NSNs as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Prior Coverage

During the past 5 years, the Inspector General, DoD, and the Air Force Inspection Agency have issued reports discussing obsolete NSNs. Unrestricted Inspector General, DoD, reports can be accessed over the Internet at <http://www.dodig.osd.mil/audit/reports>.

Inspector General, DoD

Inspector General, DoD, Report No. D-2001-187, "Defense Logistics Agency Items Supporting Obsolete Army Weapon Systems," September 27, 2001

Inspector General, DoD, Report No. D-2001-131, "Items Excluded From the Defense Logistics Agency Defense Inactive Item Program," May 31, 2001

Inspector General, DoD, Report No. D-2001-035, "Management of Potentially Inactive Items at the Defense Logistics Agency," January 24, 2001

Inspector General, DoD, Report No. D-2000-185, "Allegations to the Defense Hotline Concerning Management of Obsolete Reparable Items," September 7, 2000

Air Force

Air Force Inspection Agency Report No. PN 00-502, "Purging Obsolete Aircraft Major-End Items," September 19, 2000

Appendix B. Report Distribution

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Defense Logistics Agency Comments



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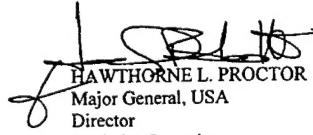
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FEB 20 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING DEPARTMENT OF DEFENSE

SUBJECT: Draft of a Proposed Audit Report – Management of Terminal Items at the
Defense Logistics Agency (Project No. D2001LD-0128),
dated December 19, 2001

Comments on the finding and recommendation of the subject draft report are attached.
We respectfully request that you delay publishing the final report until the DORRA study
is completed and we have had an opportunity to jointly review the findings and
recommendations with the real cost of maintaining terminal/inactive items. Based on the
foregoing, if you decide to publish this report, please consider revising the paragraph
titled, "Cost of Maintaining Obsolete NSNs" by eliminating the first paragraph and table.



HAWTHORNE L. PROCTOR
Major General, USA
Director
Logistics Operations

Attachment
DLA Comments

Federal Recycling Program  Printed on Recycled Paper

Subject: Management of Terminal Items at the Defense Logistics Agency
(D200ILD-0128)

Finding: Terminal Items (See page 3 of Draft Report)

DLA Comments: Nonconcur. Terminal items have either undergone a fully coordinated Item Reduction Study or the manager has determined that the item is non-procurable. Those terminal items resulting from item reduction studies have an automated program that cancels the item. Terminal items incur minimal cost for data storage and minimal costs if there is depot stock.

Two studies are being undertaken. DORRA will determine the cost of maintaining an inactive item in the supply system. DLIS is going to determine the viability of the DIIP program with a cost benefit analysis. Depending on the outcomes of these two studies, appropriate action will be taken to revise policy and programs on cancellation of NSNs.

Internal Management Control Weakness:

(X) Nonconcur. Preliminary cost data from DORRA indicates that the costs of maintaining an item are lower than the cost to cancel an item.

Recommendation 1. We recommend that the Director, Defense Logistics Agency revise DLA Manual 4140.2 "Supply Operations Manual," July 1, 1999, to include terminal national stock number with no registered users in the Defense Inactive Item Program last user withdrawn process.

DLA Comments: Concur. Provided that the new DORRA study verifies the benefit of canceling NSNs.

Disposition:

(X) Action is ongoing. ECD: July 2002

Recommendation 2. We recommend that the Director, Defense Logistics Agency maintain and report statistics on how many terminal national stock number items are deleted from the supply system after the North Atlantic Treaty Organization and foreign governments review items.

DLA Comments: Nonconcur. We recommend that these items be forwarded to the catalogers in DLIS that actually coordinate with the registered NATO and foreign government users to determine if they still require the NSN data.

Disposition:

(X) Action is ongoing. ECD: July 2002

Action Officer: Mr. B. Schutsky
Review/Approval

Audit Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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